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INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
RUEHBJ/AMEMBASSY BEIJING 0329
RUEHKO/AMEMBASSY TOKYO 0143
RHEBAAA/DEPT OF ENERGY
RUMIAAAA/HQ USSOUTHCOM MIAMI FL
RUEATRS/DEPT OF TREASURY
RHEHNSC/NSC WASHDC
RUCPDOG/DEPT OF COMMERCE

UNCLAS SECTION 01 OF 03 CARACAS 000669

SIPDIS

SENSITIVE
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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A

TAGS: [ECON](#) [ENIV](#) [ENRG](#) [EPET](#) [PGOV](#) [VE](#) [CH](#)
SUBJECT: CHINESE POLITBURO COMES TO TOWN

REF: CARACAS 38

¶1. (SBU) Summary: During Chinese Politburo Member Li Changchun's visit to Caracas March 25-27, Venezuela and China signed six new cooperative agreements in the petroleum sector and reaffirmed a USD 6 billion joint development fund. Chavez assured China that Venezuela would be a trustworthy oil supplier and added that by the end of the year Venezuela would supply China with 320,000 barrels of petroleum/day and one million barrels/day within five years. Though China and the BRV failed to resolve a lingering dispute involving orimulsion in the Faja (Reftel) and there was the typical high degree of political theatre to the visit, both nations appear committed to their strategic partnership in the petroleum sector. End Summary.

Homage to Bolivar and Six New Accords

¶2. (U) Politburo Member Li Changchun led a delegation of Chinese dignitaries, including the President of China National Petroleum Company (CNPC), Jiang Jieming, for a three-day visit to Venezuela March 25-27. On March 26, after a morning visit to pay homage to Simon Bolivar at the pantheon, the Chinese delegation was received at PDVSA's offices. The receiving Venezuelan delegation consisted of Chavez' senior ministers, including Minister of Popular Power for Foreign Affairs (MPPFA) Maduro, Minister of Popular Power for Energy and Petroleum (MPPEP) Ramirez, Minister of Popular Power for Finances Cabezas, Minister of Popular Power for Planning and Development Giordani, and Minister of Popular Power for Basic Industries and Mining Khan. Before leaving for Suriname on March 27, Li met with National Assembly President Celia Flores. Playing up the significance of the Chinese-Venezuelan economic relationship, the pro-Chavez daily newspaper "Vea" estimated bilateral trade at USD 4.2 billion.

¶3. (U) Chavez and Li participated in an evening signing ceremony on March 26 at Miraflores Place, during which the two nations signed six new agreements and reaffirmed a prior commitment to a USD 6 billion joint development fund, of which China would contribute USD 4 billion and Venezuela USD

2 billion. PDVSA will hold a majority 60/40 interest of the capital in the joint ventures located in Venezuela and CNPC will hold a 60/40 interest in the companies located in China.

14. (U) The PRC and BRV signed the following six agreements:

-- Cooperative Agreement for the Donation of 10 million RMB (USD 1.25 million) between the PRC and the BRV, executed by Minister Maduro and the Chinese Ambassador to Venezuela Ju Yije.

-- Petrozumano Accord: The agreement provides for the creation of a joint-venture for the exploration, extraction, and transportation of hydrocarbons, executed by CNPC President Jiang Jieming and PDVSA President Ramirez.

-- Cooperation Agreement between CNPC and PDVSA executed by Ramirez and Jieming. This agreement evaluates the possibility of creating a mixed company to develop an additional 600,000 barrels/day of crude in three areas of the Faja. The first is Block Junin 4, whose production is estimated at 200,000 barrels/day. A second is Block MP-3 where Sinovensa, a joint Venezuelan-Chinese company, currently operates (200,000 barrels/day). The third is the Carabobo Block (200,000 barrels/day). The crude extracted from the Faja would be sent to three new refineries in China with a capacity of 800,000 barrels/day to supply the Chinese market. The agreement also envisions creating a mixed company for maritime transport of crude to the new refineries. Capital in the maritime transport company will be split 50/50.

--Agreement between PDVSA and CPNC to form a mixed company

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named Chinovenezuela, executed by PDVSA Vice President for Exploration and Production Felipe Vielma Perez and CPNC Director General for Europe and the Americas Li Shiju. The purpose of the company is to service and maintain oil wells. --CPNC and Venezuela also executed two supply contracts to provide crude and fuel oil to the Chinese market.

Venezuelan Oil Exports to China on the Rise

15. (U) During the signing ceremony, Chavez highlighted the developing relationship with China in the petroleum sector. Chavez said that, in the past, Venezuela was a "colony" of the United States and therefore was unable to export petroleum to China. In an interview with "El Universal," Energy Minister Ramirez said that China would import 1 million barrels/day of Venezuelan oil by 2012. Chavez said that his goal has always been for Venezuela to become a stable and growing supplier of petroleum to China. According to Chavez, in 2005, Venezuela did not export a single barrel to China. In 2006, it exported 300,000 barrels/day, and in 2007, he estimated Venezuela would export 500,000 barrels/day. (Note: There appears to be some confusion over the numbers, as PDVSA later backed down from the 500,000 barrel estimate and proposed a more conservative target for 2007 of 320,000 barrels/day. According to "El Universal," the Chinese Ambassador to Venezuela said that China was currently importing 200,000 barrels of oil/day. End Note.)

Chavez Takes Aim at the United States, Praises Mao

16. (U) In typical fashion, Chavez took shots at the United States during the signing ceremony, while praising Mao and the Chinese revolution. In a thinly veiled attack at the United States, Chavez said "China is a power, but it is not imperialist, for the good grace and luck of the world. Rather it is a revolutionary people and a revolutionary

government that follows the line of Mao Tse Tsung and socialism." He then proceeded to launch into a bizarre comparison between Chairman Mao and Bolivar to conclude his discourse.

But what about the Orimulsion Dispute?

17. (SBU) One noteworthy aspect of the agreements signed between the PRC and BRV was what provisions they didn't contain. CNPC has had doubts about the reliability of PDVSA and the BRV as partners after MPPEP ordered the Venezuelan-Chinese joint-venture Sinovensa to stop producing orimulsion in December 2006. CNPC views the BRV's actions as an expropriation and is currently negotiating compensation with the BRV (Reftel). The cooperative agreement between PDVSA and CNPC (para 4) regarding extending Sinovensa's MP-3 block essentially says PDVSA and CNPC "agree to disagree" on the orimulsion issue. The agreement reads "...would include an extension south of Block MP-3, subject to resolution of the existent problems between the two companies." Since there is no indication that the disputes have been resolved, essentially the agreement is meaningless.

Comment

18. (SBU) China and Venezuela have solid reasons for deepening their energy ties, which has strategic implications for both nations. To reduce Venezuelan economic dependence on the United States, Chavez is looking to China as a destination for Venezuelan oil exports and a substitute location for refineries. In Venezuela as in other countries, China is looking for a long-term relationship with an oil-producing state to fuel its rocketing economic growth and increased oil consumption. That said, the failure of the two

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nations to come to an agreement on a key substantive issue with which the two state oil companies were grappling shows that the recent signings were largely about political theatre. Industry contacts in the oil services industry, however, think that of all the countries who have signed deals in the Faja, China could be the most likely to seriously commit to the projects. Venezuela also represents a potentially lucrative market for Chinese service companies.

Bio Note

19. (U) Li Changchun, 58, was born in 1944 in Liaoning Province (Northeastern China) and holds an engineering degree. Jiang Zemin appointed Changchun as the youngest-ever member of China's nine-man Politburo in 1997, and he currently is the PRC's top propaganda official (source: www.chinavita.com).

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